



TEACHERS' RETIREMENT ALLOWANCES FUND BOARD

1987

ANNUAL REPORT

Manitoba



Teachers' Retirement
Allowances Fund Board

111 — 1200 Portage Avenue
Winnipeg, Manitoba, CANADA
R3G 0T5

(204) 945-6199

June 27, 1988

The Honourable Len Derkach,
Minister of Education,
Room 168, Legislative Building,
Winnipeg, Manitoba,
R3C 0V8.

Dear Mister Derkach:

In accordance with subsection 51(3) of The Teachers' Pensions Act, we are pleased to report on our administration of the Teachers' Retirement Allowances Fund for the year ended December 31, 1987. Appended to and forming part of this report are the following:

1. Statement of "Comparative Statistics" of Significant aspects of the Fund covering the period from inception in 1925 to the end of 1987.
2. Report of the Provincial Auditor on his examination of the accounts of the Fund for the year ended December 31, 1987, as required by Clause 51(3)(a) of the Act.
3. Financial Statements in respect of the year ended December 31, 1987, as follows:

Exhibit A - Balance Sheet as at December 31, 1987

Exhibit B - Statement of Changes in Benefit Reserves for the year ended December 31, 1987

Exhibit C - Statement of Money Purchase Account for the year ended December 31, 1987

Schedule 1 - Summary of Investments as at December 31, 1987

Schedule 2 - Summary of Investment Income for the year ended December 31, 1987

Notes to the Financial Statements for the year ended December 31, 1987.

4. Actuarial Valuation Balance Sheet as at January 1, 1987.

INVESTMENTS

Under the Act, investments are made as directed by the Investment Committee, composed of the Chairman and a "teacher" member of the Board and the Deputy Minister of Finance for the Province. The Committee held 8 formal meetings during 1987 and the results of its decisions are portrayed in the following paragraphs. Although there was a net increase in the amount invested in every asset class, the percentage of total investments representing longer term fixed income securities increased by 3.5% to 57.7%, offset by a decrease in short term investments of 2.5% and of 1% in non-fixed income investments.

During 1987, invested assets increased by more than \$58,000,000. This amount along with over \$25,000,000. of funds received from securities sold or matured was invested as follows:

	<u>% of Total</u>	<u>Cost (thousand \$)</u>	<u>Average Yield %</u>
Bonds - Governments	12.0	\$ 9,983,	10.51
- Canadian Corporations	<u>16.9</u>	<u>14,106,</u>	10.97
Total Bonds	<u>28.9</u>	<u>24,089,</u>	<u>10.78</u>
Mortgages - Insured, NHA (regular)	35.6	29,682,	10.57
- Insured, NHA (Index Linked)	4.3	3,567,	4.63 + CPI
- Uninsured	<u>9.0</u>	<u>7,500,</u>	10.83
Total Mortgages	<u>48.9</u>	<u>40,749,</u>	<u>10.47</u>
Total Fixed Income	<u>77.8</u>	<u>64,838,</u>	<u>10.59</u>
Equity Investments			
Real Estate	2.7	2,271,	*
Direct Natural Resources	7.7	6,391,	*
Venture Capital	<u>10.5</u>	<u>8,787,</u>	*
Total Equity	<u>20.9</u>	<u>17,449,</u>	
Total Longer Term Investment	<u>98.7</u>	<u>\$82,287,</u>	
Short Term Investment	<u>1.3</u>	<u>1,050,</u>	
Total New Investment	<u>100.0</u>	<u>\$83,337,</u>	

* Rates of return to be achieved on these 3 asset classes cannot be predetermined as they are obtained through future rentals, product sales, and net capital gains at time of sale. Over the longer term, investments of these types have historically yielded greater returns than fixed income investments.

As investments in real estate, mortgages, venture capital and direct acquisition of natural resource assets require advance commitment of funds which are paid out during or on completion of construction or as required to fund venture capital or natural resource acquisitions, over \$44,000,000. of unfunded commitments were in place at the end of the year, as follows:

	Amount (thousand \$)	Average Yield
Mortgages:		
- Insured, NHA - regular	\$ 2,077,	10.89%
- Insured, NHA - index linked	21,433,	4.67% + CPI
Real Estate Equity	7,483,	
Direct Natural Resources	7,464,	
Venture Capital	<u>6,039,</u>	
Total Commitments	<u>\$ 44,496,</u>	

The rate of return on average net assets of the Fund decreased in 1987 to 9.90% from 11.25% in the preceding year. Reduced yields on longer term fixed income investments as a result of maturity of investments made in the early 1980's, when interest rates were exceptionally high, account for the majority of the decrease in overall portfolio yield.

PENSIONS

During the year there was a net increase of 237 in the number of people receiving retirement income and other monthly benefits. The following is a summary analysis of the number of persons receiving different types of retirement income benefits at December 31, 1987:

Regular service pensions -

to retired teachers	3,494
to dependants or estates of deceased retired teachers	111

Disability pensions -

to retired disabled teachers	108
to dependants or estates of deceased retired disabled teachers	6

Death benefits -

to surviving spouses or children of deceased teachers	65
--	----

Special annuities -

to former teachers of retirement
age not entitled to regular
pensions

186

3,970

ACTUARIAL APPRAISAL

Subsection 45(4) of The Teachers' Pensions Act requires that an actuarial appraisal of the Fund be made every 3 years. The Actuary's report on the appraisal of the Fund at January 1, 1987 was recently received and a copy was forwarded to your office. A copy of the Valuation Balance Sheet at January 1, 1987 accompanies and forms part of this report.

The valuation is concerned only with the assets and liabilities attributable to "Account A" because all other components of the Fund are structured in such a manner to make them self-supporting. Essentially, "Account A" is supported by teacher contributions and investment earnings, and is responsible for the payment of one-half of the cost of pension benefits provided for under the Act, as well as the cost of administering the plan. The remaining half cost of pension benefits is billed to the Province when the pension payments are made.

At the time of the previous appraisal on January 1, 1984, the Actuary advised that amendments to the plan required to bring it in line with pension reform (The Pension Benefits Act) would use up most, if not all, of the Fund's surplus of \$37,677,206. In his analysis of actual events between 1983 and 1987, the Actuary reports that these compliance amendments increased the Fund's liabilities by \$17.9 million. Other amendments to the plan were made in 1985, the most significant being the provision for pensions to be paid as early as age 55, without any reduction for the age of the retiring teacher. The Actuary has determined that these changes further increased the liabilities of Account A by \$30.1 million. Therefore, after the 1985 amendments, the 1984 surplus would have reverted to an unfunded liability in excess of \$10 million.

You will note from the Valuation Balance Sheet that Account A ended up with a surplus of \$29,412,601. at January 1, 1987. In his analysis of the actual experience of the Fund and its members during the 3 years covered by the report, the Actuary determined that actual investment earnings and salary increases were significantly more favorable to the Fund than had been expected based on previous experience. This positive actual experience more than offset the potential unfunded liability noted above and produced a reasonable margin of surplus for the future.

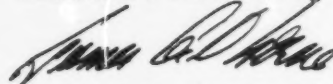
We are pleased to report that the Actuary has certified that "the assets of Account A, together with the contributions expected to be received from and on behalf of the teachers who are participating in the Fund, are sufficient to provide the benefits promised by the Act as they fall due".

BOARD MEMBERSHIP

During the year, Mrs. Stephanie Shumilak and Miss Anne Monk were appointed members of the Board to replace Mr. George Eakin and Mr. David Lerner whose terms of appointment expired on June 30, 1987. We wish to record our appreciation for the contribution that both retiring members made to the administration of the Fund during the time they served as members of the Board.

Respectfully submitted:

THE TEACHERS' RETIREMENT
ALLOWANCES FUND BOARD,



BY James G. Osborne, Chairman,

Members:

William E. Lavery, Vice Chairman

- (1) Anne Monk
- (2) Stephanie Shumilak
- (1) Murray Smith
- (1) George Strang
- (2) Ray Whiteway

- (1) Nominated by The Manitoba Teachers' Society
- (2) Nominated by The Manitoba Association of School Trustees

TEACHERS' RETIREMENT ALLOWANCES FUND BOARD
COMPARATIVE STATISTICS
1925 - 1987

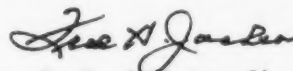
Year Ended June	Income		Approx. Rate of Return %	Number of Teachers Contributing	CONTRIBUTIONS			Admin. Expenses (\$ 000)	Refunds (\$ 000)	Pensions			
	Net Assets (\$ 000)	From Investments			Teachers (\$ 000)	Province of Manitoba (\$ 000)				Being Paid at end of period	Added during period	Delete during period	
						School Districts (\$ 000)	Cost (\$ 000)						
1925-1948	1,866,	628,	4.00		1,761,	248,	--	33,	279,	464,	109	192	83
1949-1963	23,225,	5,548,	3.25-4.70	7,750	12,422,	3,830,	3,617,	258,	2,630,	5,500,	781	958	286
1964.....	25,316,	1,144,	4.85	8,700	2,247,	256,	527,	44,	531,	1,509,	895	148	34
1965.....	28,084,	1,281,	5.00	9,000	3,137,	201,	539,	40,	610,	1,750,	960	101	36
1966.....	30,387,	1,427,	5.00	9,400	2,962,	538,	287,	39,	803,	2,072,	1,032	102	30
1967.....	33,746,	1,574,	5.15	9,750	2,972,	1,017,	11,	44,	859,	2,251,	1,084	88	36
1968.....	36,839,	1,735,	5.35	10,650	3,655,	1,227,	20,	57,	904,	2,594,	1,155	120	49
1969.....	40,627,	2,008,	5.50	11,150	4,332,	1,394,	12,	56,	990,	2,906,	1,253	138	40
1970.....	44,828,	2,320,	5.60	11,650	4,710,	1,578,	13,	64,	1,116,	3,261,	1,357	143	39
6 mos. ended Dec. 31, 1970	46,311,	1,369,	6.00	11,750	1,806,	1,280,	5,	31,	649,	2,310,	1,458	124	23
year ended Dec. 31,													
1971.....	52,119,	3,125,	6.19	12,100	5,620,	3,123,	16,	90,	1,048,	4,955,	1,606	195	47
1972.....	60,249,	3,977,	6.40	12,000	6,281,	3,841,	10,	114,	1,244,	5,670,	1,737	182	51
1973.....	68,188,	3,996,	6.53	12,200	6,982,	6,100,	9,	123,	1,186,	7,076,	1,980	293	50
1974.....	77,256,	3,078,	4.43	12,300	7,862,	8,755,	8,	136,	1,449,	8,957,	2,176	244	48
1975.....	89,277,	7,008,	8.94	12,400	9,316,	7,538,	6,	168,	1,385,	10,661,	2,289	171	58
1976.....	101,988,	8,090,	8.91	12,500	10,656,	8,519,	5,	215,	1,471,	12,388,	2,416	175	48
1977.....	117,140,	9,260,	8.91	12,600	12,348,	9,322,	5,	290,	1,449,	14,018,	2,524	161	53
1978.....	137,127,	12,007,	9.91	12,716	14,538,	9,985,	11,	261,	1,499,	15,489,	2,649	187	62
1979.....	159,066,	14,917,	10.60	12,533	16,292,	10,859,	4,	292,	1,817,	17,212,	2,789	196	56
1980.....	184,458,	17,181,	10.53	12,471	18,065,	11,848,	5,	358,	2,174,	19,050,	2,935	218	72
1981.....	222,755,	22,877,	14.02	12,805	25,985,	12,617,	--	404,	2,191,	20,867,	3,007	143	71
1982.....	272,360,	27,991,	11.96	12,907	26,293,	13,912,	--	493,	2,210,	23,054,	3,117	194	84
1983.....	316,200,	29,139,	10.45	12,915	27,557,	15,183,	--	549,	2,027,	25,519,	3,239	197	75
1984.....	360,060,	28,579,	8.86	13,111	29,580,	16,453,	--	660,	1,980,	28,522,	3,355	213	97
1985.....	414,458,	39,506,	10.85	13,287	31,214,	18,184,	--	709,	1,914,	32,092,	3,542	260	73
1986.....	475,214	46,935,	11.25	13,763	32,890,	20,423,	--	823,	1,744,	36,771,	3,733	291	100
1987.....	534,874	47,682,	9.90	14,115	33,667,	22,496,	--	961,	2,013,	41,885,	3,970	330	93

THE TEACHERS' RETIREMENT ALLOWANCES FUND

REPORT OF THE PROVINCIAL AUDITOR'S OFFICE

We have examined the financial statements, being Exhibits A, B and C and Schedules 1 and 2, of The Teachers' Retirement Allowances Fund for the fiscal year ended December 31, 1987. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Fund as at December 31, 1987 and the results of its operations for the year then ended in accordance with the accounting policies stated in note 2 to the financial statements applied on a basis consistent with that of the preceding year.



F. H. Jackson, CA,
Provincial Auditor

May 20, 1988
Winnipeg, Manitoba

Exhibit A

THE TEACHERS' RETIREMENT ALLOWANCES FUND

Balance Sheet
as at December 31, 1987
(with 1986 figures restated for comparison)

A S S E T S

	<u>1987</u>	<u>1986</u>
Investments, Schedule 1.....	\$524,303,273	\$466,042,597
Unamortized net adjustment to book value of securities sold before maturity.....	64,677	92,923
Accrued interest on investments.....	5,573,218	5,395,267
Investment income receivable.....	1,656,826	1,511,723
Teachers' contributions receivable from school divisions ..	2,626,623	2,234,808
Receivable from Government of the Province of Manitoba.....	566,531	533,577
Computer equipment, at cost less accumulated amortization of \$107,486 (1986 - \$67,168), Note 2(F).....	124,164	104,495
Cash on hand and in bank (bank overdraft).....	471,561	(307,773)
	<u>\$535,386,873</u>	<u>\$475,607,617</u>

L I A B I L I T I E S

Accounts payable.....	\$ 512,818	\$ 394,089
Money Purchase Account, Note 4, Exhibit C.....	28,323	19,444
Provision for Fund's share of employees' pension benefits, Note 2(E).....	572,862	512,239
	<u>1,114,003</u>	<u>925,772</u>
Benefit Reserves, Exhibit B:		
Reserves for teachers' share of benefits:		
Basic.....	489,280,194	434,665,462
Pension indexing adjustments.....	43,354,910	38,563,706
Reserves for employers' share of benefits:		
Manitoba Teachers' Society.....	1,491,174	1,317,901
Manitoba Association of School Trustees.....	146,592	134,776
	<u>534,272,870</u>	<u>474,681,845</u>
	<u>\$535,386,873</u>	<u>\$475,607,617</u>

Exhibit B

THE TEACHERS' RETIREMENT ALLOWANCES FUND

**Statement of Changes in Benefit Reserves
for the year ended December 31, 1987
(with 1986 figures for comparison)**

	1987				1986			
	Reserve for Teachers' Share of Benefits		Reserve for Employers' Share of Benefits					
	Basic	Pension Indexing Adjustments	Manitoba Teachers' Society	Manitoba Association of School Trustees	Total	Total	Total	Total
Additions:								
Contributions:								
Teachers.....	\$ 28,521,205	\$ 5,145,611	\$ --	\$ --	\$ 33,666,816	\$ 32,889,796		
Province of Manitoba:								
Share of benefits charged.....	20,760,037	--	--	--	20,760,037	18,681,771		
Re: Actuarial liability created by 1970 and 1973 amendments.....	1,613,300	--	--	--	1,613,300	1,613,300		
Prior rural service of certain Winnipeg teachers.....	122,664	--	--	--	122,664	127,460		
Manitoba Teachers' Society.....	--	--	72,541	--	72,541	68,589		
Manitoba Association of School Trustees.....	--	--	--	8,296	8,296	8,106		
Other - Transfers under reciprocal agreements.....	1,541,418	--	--	--	1,541,418	687,658		
Transfer from Money Purchase Account, Exhibit C.....	38,753	--	--	--	38,753	135,725		
Total contributions...	52,597,377	5,145,611	72,541	8,296	57,823,825	54,212,405		
Investment Income, Schedule 2, Note 2.....	43,157,765	4,375,479	134,625	14,042	47,681,911	46,935,383		
Total additions.....	95,755,142	9,521,090	207,166	22,338	105,505,736	101,147,788		
Deductions:								
Pensions paid.....	37,110,533	4,729,886	33,893	10,522	41,884,834	36,771,093		
Contributions refunded.....	2,013,279	--	--	--	2,013,279	1,743,922		
Transfers under reciprocal agreements.....	1,055,909	--	--	--	1,055,909	1,112,877		
Administrative expenses.....	960,689	--	--	--	960,689	822,969		
Total deductions.....	41,140,410	4,729,886	33,893	10,522	45,914,711	40,450,861		
Net increase for year.....	54,614,732	4,791,204	173,273	11,816	59,591,025	60,696,927		
Balance at beginning of year.....	434,665,462	38,563,706	1,317,901	134,776	474,681,845	413,984,918		
Balance at end of year, Exhibit A...	\$489,280,194	\$43,354,910	\$1,491,174	\$146,592	\$534,272,870	\$474,681,845		

Exhibit C

THE TEACHERS' RETIREMENT ALLOWANCES FUND

Statement of Money Purchase Account
for the year ended December 31, 1987
(with 1986 figures for comparison)

	<u>1987</u>	<u>1986</u>
Additions:		
Deposits.....	\$ 45,756	\$ 33,304
Allocation of interest income net of administration fee.....	<u>1,876</u>	<u>876</u>
	<u>47,632</u>	<u>34,180</u>
Deductions:		
Transfer to basic reserve, Exhibit B:		
Upon election of annuity.....	38,753	14,444
For transfer to other plans.....	<u>--</u>	<u>121,281</u>
	<u>38,753</u>	<u>135,725</u>
Increase (decrease) for the year.....	8,879	(101,545)
Balance at beginning of year.....	<u>19,444</u>	<u>120,989</u>
Balance at end of year, Exhibit A.....	<u>\$ 28,323</u>	<u>\$ 19,444</u>

Schedule 1

Page 1

THE TEACHERS' RETIREMENT ALLOWANCES FUND

Summary of Investments
as at December 31, 1987

	<u>Par Value</u>	<u>Book Value</u>
Fixed income longer term investments, Note 2(B)(i):		
Bonds and other debt instruments issued by, or guaranteed by, the following:		
Canada.....	\$ 58,683,625	\$ 46,682,414
Province of Alberta.....	165,000	164,917
Province of British Columbia.....	463,000	461,450
Province of Manitoba.....	23,335,000	23,308,535
Province of New Brunswick.....	915,000	912,780
Province of Newfoundland.....	1,050,000	1,044,780
Province of Nova Scotia.....	270,000	268,616
Province of Ontario.....	15,022,375	9,643,925
Province of Prince Edward Island.....	740,000	732,936
Province of Quebec.....	560,000	559,046
Province of Saskatchewan.....	700,000	697,865
Hospital Districts.....	6,365,000	6,353,508
Municipal corporations.....	10,530,362	10,511,934
Corporations.....	<u>75,659,945</u>	<u>73,947,823</u>
	<u>194,459,307</u>	<u>175,290,529</u>
Mortgages:		
Insured:		
National Housing Act (Canada).....	110,708,583	110,202,454
Other.....	4,570,561	4,519,435
Uninsured.....	<u>15,346,505</u>	<u>15,304,847</u>
	<u>130,625,649</u>	<u>130,026,736</u>
Total fixed income longer term investments at amortized cost.....		305,317,265
Less: Provision for capital losses.....		<u>2,322,194</u>
Net fixed income longer term investments, carried forward.....		<u>\$302,995,071</u>

THE TEACHERS' RETIREMENT ALLOWANCES FUNDSummary of Investments
as at December 31, 1987Book Value

Brought Forward.....	\$302,995,071
Non-fixed income investments, Note 2(B)(ii):	
Real estate equity investments:	
Common shares.....	29,515,995
Participating bonds.....	43,027,120
Qualifying shares.....	<u>60,000</u>
Total real estate equity investments,	
at appraised values.....	72,603,115
Less: Provision for valuation declines.....	<u>2,500,534</u>
Net real estate equity investments.....	<u>70,102,581</u>
Direct natural resource investments:	
Shares and notes, at cost plus interest in	
retained earnings.....	18,223,935
Investment in subsidiary, Note 3.....	<u>3,793,825</u>
Total direct natural resource investments.....	<u>22,017,760</u>
Venture capital equity investments,	
at appraised values.....	17,769,456
Less: Provision for valuation declines.....	<u>133,000</u>
Net venture capital equity investments.....	<u>17,636,456</u>
Real estate acquired through mortgage defaults.....	<u>5,301,405</u>
Total non-fixed income investments.....	<u>115,058,202</u>
Short term notes, at cost.....	<u>106,250,000</u>
Total Investments, Exhibit A.....	<u>\$524,303,273</u>

Schedule 2THE TEACHERS' RETIREMENT ALLOWANCES FUND

**Summary of Investment Income
for the year ended December 31, 1987
(with 1986 figures for comparison)**

	<u>1987</u>	<u>1986</u>
Fixed income longer term investments, Note 2(B)(i):		
Interest.....	\$29,199,393	\$28,441,356
Amortization of discounts and premiums.....	<u>1,577,462</u>	<u>927,614</u>
	30,776,855	29,368,970
Less: Allocation to provision for capital losses.....	<u>714,640</u>	<u>601,650</u>
	<u>30,062,215</u>	<u>28,767,320</u>
Non-fixed income investments, Note 2(B)(ii):		
Real estate equity:		
Interest and dividends.....	5,781,669	4,953,529
Adjustment due to changes in book value of investments.....	<u>2,371,071</u>	<u>437,958</u>
	<u>8,152,740</u>	<u>5,391,487</u>
Direct natural resources:		
Income from subsidiary.....	309,671	579,721
Dividends.....	615,745	659,560
Adjustment due to change in book value of subsidiary.....	<u>(1,301,100)</u>	<u>--</u>
	<u>(375,684)</u>	<u>1,239,281</u>
Venture capital equity:		
Income.....	890,569	1,894,068
Adjustments due to changes in book value of investments.....	<u>(360,500)</u>	<u>556,500</u>
	<u>530,069</u>	<u>2,450,568</u>
Mortgage investment corporation:		
Dividends.....	<u>57,080</u>	<u>--</u>
Canadian Commercial Bank:		
Adjustment due to changes in book value of investments.....	<u>--</u>	<u>(299,995)</u>
	<u>--</u>	<u>(299,995)</u>
Income from real estate acquired through mortgage defaults.....	<u>507,210</u>	<u>603,946</u>
Short term notes:		
Interest.....	<u>8,805,771</u>	<u>8,834,164</u>
Total investment income.....	47,739,401	46,986,771
Allocated to:		
Provision for Fund's share of employees' pension benefits.....	(55,614)	(50,512)
Money Purchase Account, net of administration fee.....	<u>(1,876)</u>	<u>(876)</u>
Net Investment Income, Exhibit B.....	<u>\$47,681,911</u>	<u>\$46,935,383</u>

THE TEACHERS' RETIREMENT ALLOWANCES FUND

Notes to the Financial Statements for the year ended December 31, 1987

1. Nature of the Organization:

The Teachers' Retirement Allowances Fund Board was originally constituted under an Act passed at the 1925 session of the Legislature and is responsible for administering the current legislation, The Teachers' Pensions Act. The Act provides for the establishment and maintenance of a pension plan and fund to provide retirement security for all public school teachers in Manitoba.

The Teachers' Retirement Allowances Fund primarily consists of contributions made by teachers and provides funds to meet half the cost of retirement benefits.

2. Significant Accounting Policies:

The significant accounting policies are summarized below:

- (A) The Fund follows the accrual basis of accounting in all cases where the amount of the accrual is material, specifically teacher contributions and investment income.
- (B) The investment valuation and income measurement policies consist of:

- (i) Fixed income investments:

Income on fixed income investments includes the net effect of amortization of discounts and premiums on securities held as well as amortization of book losses on bonds sold before maturity in order to acquire other securities for an increase in net yield.

One quarter of 1% of the weighted average monthly book value during the year of fixed income longer term investments is allocated to a provision for capital losses and any actual losses realized are charged against the provision.

- (ii) Non-fixed income investments:

Where valuation information is available, which is considered by management to be reliable, equity investments are adjusted to reflect the change in their values. One-half of any unrealized appreciation is taken into income in the year and the balance is credited to the provision for valuation declines. In any year that the valuations decrease, the whole of the decrease is charged to the provision. When an investment is sold, the balance in the provision pertaining to the investment sold is transferred to income.

- (a) Investment in subsidiary:

The investment in subsidiary is accounted for on the equity method. On this basis the net change in the equity of the wholly owned subsidiary, Teachers' Retirement Resources Investment Corporation of Manitoba Inc., is recognized as income or expense to the Fund and changes the carrying value of the investment.

(b) Real estate acquired through mortgage defaults:

Properties taken over by the Fund as a result of mortgage defaults are recorded at cost. These properties presently provide the Fund with rental income and will be sold when economic conditions are favorable.

(C) Pension indexing adjustment reserve:

An allocation of teachers' contributions is made to the reserve in accordance with the Act. Interest is allocated to the reserve on the basis of the average rate earned by the Fund on all fixed income investments in the Fund.

Cost of living pension adjustment payments are calculated effective July 1 in each year and are based on the lesser of the increase in the Canadian Consumer Price Index for the preceding calendar year, or the amount, determined by an actuarial review, that could be paid without resulting in an unfunded liability in the reserve.

(D) Actuarial valuation:

The financial statements do not reflect the financial position of the Fund on an actuarial valuation basis. In accordance with the Act, an actuarial valuation and report is required every 3 years. The most recent actuarial report as at January 1, 1987, disclosed a surplus of \$29,412,601 compared to a surplus of \$37,677,206 at January 1, 1984.

(E) Provision for Fund's share of employees' pension benefits:

A portion of the Fund was allocated to provide for the Fund's accrued actuarial liability based on an actuarial report at December 31, 1980. The report provided a method of allocating funds to the Provision each year between triennial valuations to recognize the annual increase in this liability and for adjustments to be made for actual experience at each valuation. Transactions affecting the Provision in 1987 and 1986 were as follows:

	<u>1987</u>	<u>1986</u>
Balance, beginning of year.....	\$512,239	\$439,233
Charged to Administrative expenses		
Adjustment re Actuarial Valuation		
at December 31, 1986.....	(28,639)	--
Required employer contributions...	33,648	23,773
Interest allocated from investment		
income.....	55,614	50,512
	<u>572,862</u>	<u>513,518</u>
Less: Fund's share of pension		
payments.....	--	1,279
Balance, end of year.....	<u>\$572,862</u>	<u>\$512,239</u>

(F) Computer Equipment:

Computer equipment and software acquisitions are capitalized and amortized on a straight line basis over five years.

3. Investment in Subsidiary:

The Teachers' Retirement Resources Investment Corporation of Manitoba Inc. (TRRICMI), a wholly owned subsidiary of the Fund, was incorporated on July 13, 1983, for the purpose of participating in the energy resource sector on behalf of the Fund.

The Fund's investment in TRRICMI is comprised of:

	<u>1987</u>	<u>1986</u>
Shareholder's advances.....	\$4,785,154	\$6,525,816
Capital stock.....	100	100
Retained earnings (deficit).....	<u>(991,429)</u>	<u>579,760</u>
Investment in subsidiary.....	<u>\$3,793,825</u>	<u>\$7,105,676</u>

Subsequent to the year end, and before preparation of these statements, it was determined that, largely because of the accounting treatment followed in the past, the carried value of the Fund's investment in TRRICMI was significantly in excess of realizable value. Accordingly, the carried value of this investment has been written down by \$1,301,100 to \$3,793,825, and the book loss has been applied as an adjustment of 1987 investment income. Also, after the year end, the investments held in TRRICMI were transferred to the Fund and exchanged for shares of an equivalent value in a different pension resource corporation (Exchange Resources Ltd.).

4. Money Purchase Account:

The Teachers' Retirement Allowances Fund Board has established rules for the Money Purchase Account in accordance with Section 74 of The Teachers' Pensions Act. Under these rules, eligible individuals may transfer to the Money Purchase Account an amount from the Fund, the pension plan of a prior employer, or a locked-in registered retirement savings plan, to provide for an annuity or other settlement in the future. The Money Purchase Account is accounted for separately by the Board. The Board charges an annual administrative fee of 1% of the average value of the assets in the plan. The accumulated value of the eligible individual's account, upon election of an annuity under the Money Purchase Account, is transferred to the Basic Benefit Reserve.

TEACHERS' RETIREMENT ALLOWANCES FUND

Account A

Valuation Balance Sheet as at January 1st, 1987

ASSETS

Invested Assets (Note A)

Fixed Income (at adjusted amortized cost)	\$362,649,394	
Equities (at adjusted cost, equity, or adjusted appraised value)	33,933,129	
Real Estate Equities (at adjusted appraised value)	<u>74,246,402</u>	\$470,828,925

Less:

Amount applicable to:

Pension Adjustment Account	\$ 38,563,706	
Money Purchase Account	19,444	
Reserve for employer's shares of benefits		
- Manitoba Teachers' Society	1,317,901	
- Manitoba Association of School Trustees	134,776	
Reserve for Fund's share of employees' pension benefits	<u>512,239</u>	<u>40,548,066</u>
		\$430,280,859

Outstanding Contributions and Other Accounts Receivable (Note B)	4,280,108
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Computer Equipment at Cost	104,495
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Value of Future Payments due from the Province under subsection 40(10) and 40(11) (Note C)	18,637,600
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Value of Future Payments due from the Province under Section 51 (Note D)	836,400
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Value of Future Contributions expected to be received from present teachers	407,727,500
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Value of Future Contributions expected to be received from future disabled teachers	<u>20,178,800</u>
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TOTAL ASSETS	<u>\$882,045,762</u>
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LIABILITIES

Value of Liabilities in respect of

Current Benefits (Note E)

- healthy retirement pensions	\$113,744,500	
- disabled retirement pensions	1,119,400	
- survivor's pensions	2,979,300	
- balance of guarantee	34,600	
- Winnipeg deferred pensions and war service pensions	<u>20,100</u>	\$117,897,900

Value of Liabilities in respect of

Future Benefits expected to be provided for service to December 31st, 1986 by present teachers

- healthy retirement pensions	\$262,529,600	
less: reductions re: Winnipeg service (Note F)	<u>1,432,800</u>	\$261,096,800
- retirement pensions for disabled teachers (Note G)	22,339,100	
- cash settlements and annuities on death	5,196,000	
- cash settlements and deferred pensions on termination	31,073,500	
- value of 50% tests	<u>116,600</u>	319,822,000

Value of Liabilities in respect of Future Benefits expected to be provided for service on and after January 1st, 1987 by present teachers

- healthy retirement pensions	302,601,600	
- retirement pensions for disabled teachers (Note G)	46,216,300	
- cash settlements and annuities on death	12,462,300	
- cash settlements and deferred pensions on termination	43,531,200	
- value of 50% tests	<u>600,100</u>	405,411,500

Value of additional payments as a result of Reciprocal Agreements

2,890,500

Value of Liabilities in respect of Service to be Reinstated

215,300

Value of Future Transfers from Account A to Account B under Section 69 (Note H)

2,202,200

Miscellaneous Liabilities (Note I)

2,166,661

Provision for Administrative Expenses in 1987, 1988 and 1989

2,027,100

TOTAL LIABILITIES

\$852,633,161

SURPLUS

\$ 29,412,601

The following notes provide an explanation of certain items which appear on the Valuation Balance Sheet:

(A) Invested Assets.

The Invested Assets were obtained from the Auditor's Report as at December 31, 1986. These amounts were allocated as follows:

Fixed Income Investments

- at amortized cost	\$255,027,975	
- provision for capital losses	(2,364,909)	
- unamortized adjustment to book value of securities sold before maturity	92,923	
- accrued interest	5,395,267	
- short-term notes at cost	105,200,000	
- bank overdraft	<u>(701,862)</u>	
Adjusted Amortized Cost		<u>\$362,649,394</u>

Equity Investments

Direct natural resource investments:		
- shares and notes at cost plus interest in retained earnings	\$15,260,826	
- investment in subsidiary at equity value	<u>7,105,676</u>	\$ 22,366,502
- venture capital equity investments at appraised values	\$10,811,106	
- provision for valuation declines	<u>(556,500)</u>	10,254,606
- mortgage investment corporation shares at cost		<u>1,312,021</u>
Total value		<u>\$ 33,933,129</u>

Real Estate Equity Investments

- at appraised value	\$69,770,098	
- provision for valuation declines	<u>(1,554,684)</u>	\$ 68,215,414
- real estate acquired through mortgage defaults		<u>6,030,988</u>
Adjusted Appraised Value		<u>\$ 74,246,402</u>
Total Invested Assets		<u>\$470,828,925</u>

Reconciliation of Total of Invested
Assets Shown in this Report to Total
of Investments Shown in Financial
Statements

Total of Invested Assets shown in this Report		\$470,828,925
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Less: Amounts shown separately in financial
statements

- unamortized adjustment to book value of securities sold before maturity	\$ 92,923	
- accrued interest	5,395,267	
- bank overdraft	<u>(701,862)</u>	<u>(4,786,328)</u>

Total of Investments shown in financial statements		<u>\$466,042,597</u>
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(B) Outstanding Contributions and Other Accounts Receivable.

Investment income receivable	\$ 1,511,723
Balance of teacher and School Division contributions owing by School Divisions	2,234,808
Receivable from Province of Manitoba	<u>533,577</u>
Total	<u>\$ 4,280,108</u>

These amounts were also obtained from the Auditor's Report as at December 31st, 1986.

(C) Value of Future Payments due from the Province under subsection 40(10) and 40(11).

The present values of the annual payments specified in the Act have been calculated by discounting each future payment from the date it is scheduled to be made back to January 1st, 1987, at the rate of 9.25% per year.

Present value of future payments under subsection 40(10)	\$ 4,545,900
Present value of future payments under subsection 40(11)	<u>14,091,700</u>
Total	<u>\$18,637,600</u>

(D) Value of Future Payments due from the Province under Section 51.

The Province pays the cost of providing an annual pension of \$50. per year of service to each former Winnipeg teacher in respect of any service in a school district or school area outside of the Winnipeg district, prior to his joining The Winnipeg Teachers' Pension Fund.

The value of the future payments to be made by the Province is equal to the value of these pensions. This value was calculated as an amount equal to \$836,400. as at January 1st, 1987.

(E) Value of Liabilities in respect of Current Benefits.

These values include the value of all supplementary pensions as well as the value of the pensions in payment as at December 31st, 1986. Pension adjustments granted since 1977 are excluded as the Pension Adjustment Account is responsible for these.

(F) Reduction in Value of Retirement Pensions re: Winnipeg Service.

Under the former Winnipeg Pension By-law, teachers contributed to a Government Annuity Plan. As a result the Fund does not have any assets in respect of these contributions.

Any pension provided from the Fund is reduced by an amount equivalent in value to the contributions which the Fund would have received had contributions been made to the Fund instead of the Government Annuity Plan.

The reduction in the liabilities of \$1,432,800. is equal to the additional assets which it is estimated Account A would have at the valuation date if Winnipeg teachers had contributed to the Fund throughout their service.

(G) Retirement pensions for disabled teachers is the value of the pensions expected to be paid to those participants who became disabled prior to retirement.

(H) Value of Future Transfers from Account A to Account B under Section 69.

As part of the changes made to the Act in 1985, Account A is required to pay the full cost of the change to the retirement provisions for the first 5 years. The value shown represents the present value of the remaining credits Account B will receive in 1987, 1988 and 1989 for the charges that are automatically made to Account A in respect of this change.

(I) Miscellaneous Liabilities.

Voluntary contributions made by teachers, plus interest	\$2,079,028
Refund of contributions due, but not paid as at January 1st, 1987	<u>87,633</u>
Total	<u>\$2,166,661</u>